

**PUBLIC SERVICE COMMISSION OF SOUTH CAROLINA
COMMISSION DIRECTIVE**

ADMINISTRATIVE MATTER	<input type="checkbox"/>	DATE	<u>July 11, 2018</u>
MOTOR CARRIER MATTER	<input type="checkbox"/>	DOCKET NO.	<u>2017-292-WS</u>
UTILITIES MATTER	<input checked="" type="checkbox"/>	ORDER NO.	<u>2018-494</u>

THIS DIRECTIVE SHALL SERVE AS THE COMMISSION'S ORDER ON THIS ISSUE.

SUBJECT:

[DOCKET NO. 2017-292-WS](#) - Application of Carolina Water Service, Incorporated for Approval of an Increase in Its Rates for Water and Sewer Services - Staff Presents for Commission Consideration the Office of Regulatory Staff's Petition for Rehearing or Reconsideration of Commission Order No. 2018-345(A).

COMMISSION ACTION:

Although Commission Order No. 2018-345(A) is based on and supported by the evidence presented at the hearing, move to grant rehearing on the following issues raised by ORS:

- sludge hauling expenses – The ORS argued that sludge hauling expenses during the test year were abnormally high and, therefore, should be normalized. CWS argued that the sludge hauling expenses during the test year were known and measurable expenses that reflect the sludge hauling expenses that will occur in the future. At rehearing, CWS should update sludge hauling expenses for the most recent period available and provide, on a monthly basis, the amount of sludge hauled and the cost of transporting the sludge.
- litigation costs – The ORS argued that no litigation costs should be borne by the customers, if for no other reason, than that the courts ruled against CWS in the majority of the actions. The Company argued that litigation expenses are a cost of doing business and are known and measurable. During the merits hearing, neither ORS nor CWS provided disaggregated legal expenses. At rehearing, the litigation expenses should be provided for each legal action along with a description of the legal action, and an outcome or status of each case. Further, the parties should be prepared to address the reasonableness of the fees in each particular case based on the factors listed in Commission Order 2006-543, page 27. I must point out something in regard to those factors. ORS' motion asserts that this Commission has found that "unsuccessful defense of a civil action," is the sole factor considered by this Commission when weighing the appropriateness of litigation expense recovery. To the contrary, "the amount involved and the results obtained" are listed as only one of eight factors – not the sole factor – for consideration by the Commission.
- Friarsgate EQ basin liner project – The ORS argued that expenses associated with the replacement of the Equalization (EQ) Liner should not be recoverable because not all of the work has been completed. CWS argued that the expenditures on the work that has been completed are known and measurable and recoverable in this case. At the rehearing, the Commission will consider an update on the status of the EQ Liner replacement including expenditures and the projected final completion date. The parties should be prepared to address whether expenses of the EQ basin remediation would have been required absent the plan to replace the liner.

- rate design – In this Docket, both the ORS and CWS employed a rate design based on cost-of-service in each of two service territories which was included in a Settlement Agreement signed by ORS, CWS, and Forty Love Point Homeowners' Association and approved in Commission Order No. 2015-876. Both the Company and ORS proposed rates post-hearing in the present case. In its Petition, ORS argues that CWS used, and the Commission approved, a different rate design than cost-of-service for each service territory. It is apparent ORS is confusing rate design with rates resulting from a specific rate design as impacted by adjustments in the case. At rehearing the parties should describe the method used to determine rates. Mr. Chairman, I would also note that the Order the Commission issued was a rate decrease for some customers with full service in Territory 1.

Also, move that reconsideration or rehearing of the following matters be denied:

- Federal Tax Cuts and Jobs Act – ORS initiated Docket No. 2017-381-A to address the impacts of the Tax Cuts and Jobs Act. In Order No. 2018-345(A) the Commission ruled that the appropriate venue for issues relating to the Tax Cuts and Jobs Act is Docket No. 2017-381-A. Oral arguments in Docket No. 2017-381-A were scheduled for July 10, 2018. However, on July 3, 2018, a Joint Motion for Continuance of Oral Arguments was filed so as to allow more time for the parties to hold discussions which may lead to a settlement. ORS filed a letter of "no objection" to the Joint Motion for Continuance.
- Return on equity – The evidence in the record supports the Commission's ruling on the allowed return on equity. The Commission found the CWS rate of return witness' arguments more persuasive for a number of reasons. He provided more indicia of market returns, by using more analytical methods and proxy group calculations. His use of analysts' estimates for his DCF analysis is supported by consensus, as is his use of the arithmetic mean. His non-price regulated proxy group more accurately reflected the total risk faced by price regulated utilities and CWS, and he accurately noted that CWS is significantly smaller than its proxy group counterparts. Contrary to the assertion of ORS, the Commission did not approve a 50 basis point small company adjustment. ORS is correct in stating that the Commission has not in the past approved a small company adjustment. No small company adjustment was approved by the Commission in Order No. 2018-345(A), although one of the many factors the Commission considered in finding the CWS witness persuasive was his recognition of the size of the Company. However, because the Commission has not approved a small company adjustment in the past does not preclude approval of a small company adjustment in the future if the evidence supports such an adjustment.

Finally, move that Staff be directed to set an aggressive schedule for rehearing, and that the directive memorializing this motion shall be the Commission's order on this ruling for rehearing.

PRESIDING: Randall

SESSION: Regular

TIME: 2:00 p.m.

	MOTION	YES	NO	OTHER
ELAM	<input type="checkbox"/>	<input checked="" type="checkbox"/>	<input type="checkbox"/>	
ERVIN	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<u>Not Voting</u>
HAMILTON	<input type="checkbox"/>	<input checked="" type="checkbox"/>	<input type="checkbox"/>	
HOWARD	<input type="checkbox"/>	<input checked="" type="checkbox"/>	<input type="checkbox"/>	

Not on Commission Staff at the time of the Merits hearing

RANDALL	<input type="checkbox"/>	<input checked="" type="checkbox"/>	<input type="checkbox"/>	
WHITFIELD	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>	<input type="checkbox"/>	
WILLIAMS	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<u>Absent</u> Military Leave

(SEAL)

RECORDED BY: J. Schmieding

